Conn Chem Limited
Annual Report
1975

20 MULE TEAM
Scotch-gard
airkem asepticare
fresh apple
Golden Touch
Old Spice
Power Hold
Sunlight
Nature Scents
TOP MODEL
20 MULE TEAM
Electra-Sol
RAPID-SHAVE
DÉSODORISANT NOXZEMA
SLICK
PYROIL
Utilac
Thermo Foot
Maple Leaf
Gentle care for longer wear
Pure soap flakes • contains no phosphates
CRYSTAL/CRISTAUX Drano
Bissell
OVEN CLEANER
NOUVEAU NEW
ARM & HAMMER
Vaseline INTENSIVE CARE BATH BEADS
Coppertone
SPIRAL 98 OVEN AND GRILL CLEANER
Drano POWER PLUNGER
Johnson Bon ami
65 oz 1.84 kg
dishwasher all
rinse agent all
EMAIL RESISTANT A LA CHALEUR
Party Tyme
RUST-OLEUM
Super Foam
RUG CLEANER
Salon Finish
BRECK
TROUBLE SHOOTER
Mazola
Mazola
BISSELL
wet ones
Old Spice
Desenex AEROSOL
Glide
TRÈS LUISANT EMAIL DU MOTEUR
KRYLON SPRAY PAINT
CLAIROL
New... clean fresh fragrance all
tire cleaner
spray 'n wash
Old Spice
BRECK
NOXZEMA ANTI-PERSPIRANT
Pine-Sol
Scotch-gard
ROMAN BRIO
bronztan
MAXIMUM PROTECTION
SUN STOP
SO DRY Introductory Offer
DESERT FLOWER
aramis

Officers

Gordon Saunders Lang, P.Eng.,
President and Chief Executive Officer, and Chairman of the Board

Edward Grant Johnston,
Executive Vice-President and President Aerosol Division

Edward Wilson Dobson, C.G.A.,
Executive Vice-President and Chief Administrative Officer

John Kenneth Irvine, B.A.,
Executive Vice-President and President Non-Aerosol Division

Guy Richard Gossling, C.A.,
Secretary-Treasurer

James John Wega, B.A., B.Sc.,
Vice-President of Corporate Quality Control and Development

Andries Mulder,
Vice-President, Operations Aerosol Division

Russell Geoffrey,
Vice-President, Sales Aerosol Division

Financial Highlights

	1975	1974
Sales	$ 60,200,000	$ 54,000,000
Net Earnings after extraordinary items	2,769,804	2,291,589
Net Earnings before extraordinary items	2,491,804	2,016,589
Net Earnings per share after extraordinary items	$ 1.03	$ 0.85
Net Earnings per share before extraordinary items	$ 0.93	$ 0.75

Directors

Gordon Saunders Lang, P.Eng.

James Davison Lang

Edward Grant Johnston

Edward Wilson Dobson, C.G.A.

Clifford Leonard Mort, P.Eng.

Reuben Lerner, C.A.

Albert Gnat, B.A., LL.B.

John Kenneth Irvine, B.A.

Owen F. Elliott, B.A.Sc.

Transfer Agent and Registrar
Canada Permanent Trust Company,
Toronto, Montreal, Winnipeg,
Regina, Calgary, Vancouver

Auditors
Thorne Riddell & Co.
Chartered Accountants, Toronto

Legal Counsel
Lang, Michener, Cranston, Farquharson and Wright
First Canadian Place
Toronto, Ontario

Head Office
24 Curity Avenue
Toronto, Ontario
M4B 1X8

Statistical Summary

For the Years Ended 1971 to 1975

	1971 (Pro Forma)	1972 (Pro Forma)	1973	1974	1975
Sales	$ 27,445,920	$ 32,536,090	$ 38,259,844	$ 54,011,192	$ 60,181,755
Income before extraordinary items	1,424,090	1,633,773	1,859,022	2,016,589	2,491,804
Extraordinary items	–	37,000	96,200	275,000	278,000
Net Income	1,424,090	1,670,773	1,955,222	2,291,589	2,769,804
Earnings per share before extraordinary items	.53	.61	.69	.75	.93
Extraordinary items	–	.01	.04	.10	.10
Net Income	.53	.62	.73	.85	1.03

The net income for the years 1971 and 1972 has been reported on a pro forma basis to give effect to the following transactions which took place in March 1972:

– Sale to shareholders of the Corporation's investment portfolio and real estate not leased to subsidiary companies.
– Acquisition by share exchanges of the remaining issued shares of subsidiaries, Connecticut Chemicals Limited and Chempac Limited.

The following adjustments to income have been made:

– Deletion of all income less expenses arising from the investment portfolio and real estate which were sold.
– Deletion of all capital gains arising from the investment portfolio and real estate which were sold.
– Deletion of the minority interest in the income of subsidiaries, Connecticut Chemicals Limited and Chempac Limited.

◁ Some of the products manufactured by your Company.

To Our Shareholders:

1975 was a gratifying year for your Company.

- The financial results were excellent;
- Significant expansion was achieved which will result in earnings increases for the future;
- A dividend program was established;
- Major progress was being made toward a move (since announced in 1976) that would have the effect of increasing the proportion of equity held by the general Canadian public and at the same time of increasing earnings per share.

All of these were accomplished in the face of a difficult business climate which tested your Company's managers and staff severely. The effectiveness of their response to challenge is a tribute to their skills, loyalty, and hard work. Their ability to cope with the problems of inflation, recession and inventory re-adjustments has resulted in your Company ending the year even stronger than it was in the beginning. The Board of Directors wishes to thank all of the people in Conn Chem for making this possible.

Gordon S. Lang, President, Conn Chem Limited

James D. Lang, Director.

The following brief summary of financial results shows new records were achieved during the year in the important categories of sales and earnings:

- Sales reached a new high of $ 60.2 million compared with $ 54 million in 1974.
- Net earnings were $ 2,769,804 after extraordinary items, compared with $ 2,291,589 in 1974.
- Net earnings per share were $ 1.03 after extraordinary items, compared with 85 cents in the previous year.
- Net earnings before extraordinary items were $ 2,491,804, compared with $ 2,016,589 in 1974.
- Net earnings per share before extraordinary items were 93 cents, compared with 75 cents in 1974.

Extraordinary Items

During 1974 and 1973, your Company made two important acquisitions—Peterson/Puritan Canada Ltd. and Dart Packaging Ltd., both of which had accumulated substantial losses prior to their purchase by Conn Chem. Management was convinced that, ultimately, both of these companies would respond positively to Conn Chem's management. Both operations have, in fact, been markedly improved since acquisition. The combination of customer relations expertise and attention to production efficiencies that have made your Company's operations successful in the past have proved effective in both instances.

Edward W. Dobson, Executive Vice-President and Chief Administrative Officer, Conn Chem Limited

Accordingly, a reduction of income tax in the amount of $ 278,000 is shown as an extraordinary item in 1975 figures.

The company has a total of $ 1,335,000 loss carry forward (including an excess of undepreciated capital cost over net book value of depreciable fixed assets) available to reduce future income for tax purposes, the tax effect of which has not been recorded in the accounts.

Significant Expansion

Your Company's attitude to the challenge of building for the future is reflected in two quite different ways. The first is by prudent internal expansion and aggressive continual upgrading of its existing businesses. The second is by judicious acquisition.

The activities, improvements, and expansions within each of the Company's separate divisions will be reviewed in the following pages. But first a look at acquisitions.

During the year your Company acquired the following:

- The balance of all shares outstanding in K-G Packaging Ltd. (effective January 1, 1975)
- The majority of the outstanding shares of Craft Graphic Services Ltd. (effective January 1, 1975)
- All outstanding shares of Prolux Packaging Ltd. (effective April 1, 1975)
- All outstanding shares of Kleen-Stik Products, Ltd. (effective October 1, 1975)

As reference to the acquisition of K-G shares, Craft Graphics and Prolux was made in last year's Annual Report, shareholders need no introduction to them. Kleen-Stik, however, is new to our group of Companies and should, therefore, be discussed at greater length.

It opens diversification opportunities not heretofore available, and it brought strong, positively-minded management, excellent production facilities, valuable export potential, and an enviable track record for successful operations into the Conn Chem group.

The acquisition was for cash, required no long term debt, and fitted easily into the Company's day-to-day operations.

It has been particularly gratifying to learn that Kleen-Stik's contribution to earnings since acquisition has proved to be greater than anticipated.

Don Brewer, Corporate Controller, standing, reviews computer operation procedures with Brian Madill, Data Processing Manager.

Dividends and Shareholders' Tax

During 1975, the Directors established a policy for the payment of dividends. With the objective of conferring significant benefits on Conn Chem shareholders, it was hoped that a satisfactory confirmation as to the income tax status of certain surplus accounts could be obtained from the income tax authorities prior to the year-end.

Delays were encountered and it was not until early in 1976 that the anticipated confirmation was received.

While the announced dividend rate was 12 cents per share per year or three cents per quarter, the initial payment was six cents per share which was paid on March 1, 1976 to shareholders of record February 16, 1976. This dividend payment combined the quarterly dividend which was intended to have been paid to shareholders of record September 15, 1975 with a dividend payment for the fourth quarter.

To coincide with the payment of dividends, the Company reclassified the common shares into Class A Special Shares and also established Class B Special Shares. Both classes are freely interchangeable. The Class B shares have all the rights and privileges of the Class A shares, but are entitled to receive tax deferred dividends.

The question of tax deferred dividends is an especially important one to Conn Chem shareholders and is relevant to the income tax confirmation mentioned earlier.

Under most circumstances, a corporation's *special tax-deferred* shares pay dividends from the undistributed income on hand accumulated between 1950 and 1971 ("1971 undistributed income on hand").

However, Conn Chem has capital surplus on hand rather than 1971 undistributed income on hand. This is an important distinction since the payment of dividends by the Company on Class B shares will be made from this 1971 capital surplus for a considerable time in the future—and such dividends do not involve as a prerequisite the prior payment of a 15% tax by the Company as would be the case if the dividends were payable from 1971 undistributed income on hand.

Shareholders are advised to consult their own tax advisers concerning this question of the conversion of Class A into Class B Shares, or vice versa.

Stock Purchase

During 1975 an opportunity was presented to your Company which, if acted upon, would have the dual effect of immediately increasing earnings per share and of increasing the proportion of equity in the Company held by the general Canadian public.

Management meetings are informal and frequent. Discussing a point are (from left), Walter Fichtner, Plant Manager; Russell Geoffrey, Vice-President, Sales; Mary Spencer, Costing and Billing Department Manager; and Janet Stoliker, Office Manager.

Early in 1976 this opportunity was realized by means of the purchase by the Company of 725,000 of its own shares, representing the entire shareholdings of James D. Lang, one of the principal shareholders of the Corporation since its inception. Although Mr. Lang will cease to be an officer of the Company, he will continue to serve as a director. In disposing of his shares, Mr. Lang was motivated by the considerations that he had not been active in the business operations of the Company for several years and that the transaction seemed appropriate for his own estate purposes. None of the other Directors or senior management tendered any shares. The purchase price was $4.15 per share—significantly below market price at that time.

In order to comply with applicable legislation and to give all shareholders an equal opportunity to tender shares, a request for tenders was sent to shareholders offering to purchase all shares at a price of $ 4.15. Inasmuch as it did not appear to be in the interests of other shareholders to tender their shares, no other shares were tendered.

The principal consequence of this stock purchase can be seen in the following table. It sets forth earnings per share calculations for the year ending December 31, 1975 and shows what the effect on earnings per share would have been had the purchase and cancellation of these 725,000 shares taken effect at the beginning of that year, after imputing interest.

A Look at Operations

The following pages review the operational highlights of the different divisions and subsidiaries of your Company.

While this review briefly covers such areas as product development, production, internal expansion and improvements in efficiency, research and quality assurance, its primary focal point is people. This emphasis is particularly appropriate following the fine performance of Conn Chem's people during the past year of record difficulties, record challenges and record results.

G. R. Gossling, Secretary-Treasurer.

Earnings Per Share 1975

as Reported		Pro forma after acquisition of 725,000 shares	
Net Income #1	Earnings Per Share #2	Earnings Per Share #3	Earnings per Share fully diluted #4
$2,769,804	$1.03	$1.32	$1.26

1 *After income tax reductions of subsidiary companies arising from carry forward of prior years' losses.*
2 *Based on 2,696,452 shares outstanding.*
3 *Based on 1,971,452 shares outstanding after giving effect to imputed interest on the purchase price of such shares.*

4 *Based on 2,077,452 shares outstanding, giving effect to total potential dilution arising from options on 106,000 shares pursuant to the Company's employees stock option plan and after giving effect to imputed interest on the purchase price of such shares.*

Aerosols

Your Company is Canada's largest manufacturer of aerosol products by a significant margin. It not only maintained but strengthened that leadership in 1975.

In addition to a satisfactory increase in market share, important advances were implemented during the year both in technology and productivity.

Subsidiary companies Armstrong-Lang and K-G Packaging continued to upgrade their production and customer service facilities during the year, particularly in the field of aerosols. Because of the specialized nature of their products, however, each of these divisions will be described separately.

At your Company's main aerosol facility in Toronto's East York, Conn Chem and Peterson/Puritan divisions operate a complex of seven aerosol filling lines which combine to create one of the world's most technically sophisticated and versatile production capabilities.

During the year four events of singular importance occurred:

(i) a Good Manufacturing Practice Program was initiated.

(ii) production, raw material storage and compounding operations for all liquid and hair care products other than aerosols were moved to improved facilities within the company.

(iii) the resulting space provided an opportunity to install additional and improved raw material compounding and pre-inspection holding facilities and to allow more efficient flow of production.

(iv) a new products development laboratory was established.

The Good Manufacturing Practice (GMP) program subjects every segment of the plant to a continual and systematic series of evaluations designed to co-ordinate progress toward improvements in quality.

Edward G. Johnston, President, Aerosol Division.

Some of the highlights achieved in operating efficiencies in 1975 were:

- a breakthrough in filling speeds, to 300 units per minute, on the 18-head rotary filler used for foamy and viscous products;
- installation of additional automatic valve inserters, capping equipment and "under the cap" propellant filling systems;
- installation of automatic aerosol case forming and case packaging equipment;
- completion of upgrading and changeover of an existing all purpose line to provide a high speed filling line for foods and pharmaceuticals licensed under the Oleo Margarine Act;
- installation of an automatic x-ray fill control system.

The movement of all production and compounding facilities for liquids and hair care products, other than aerosols, to another location within the Company, has been beneficial for both divisions.

For the aerosol division, the move freed up large quantities of space which allowed for the development of much more rational raw material storage and enlarged compounding operations. Simultaneously, a co-operative program involving the sales, purchasing and warehousing departments implemented a raw material inventory control program which has had major beneficial effect on operations.

Among other improvements achieved were the installation of an additional computer bank for automatic propellant blending and the addition of refrigeration control for aerosol powder and slurry suspension systems.

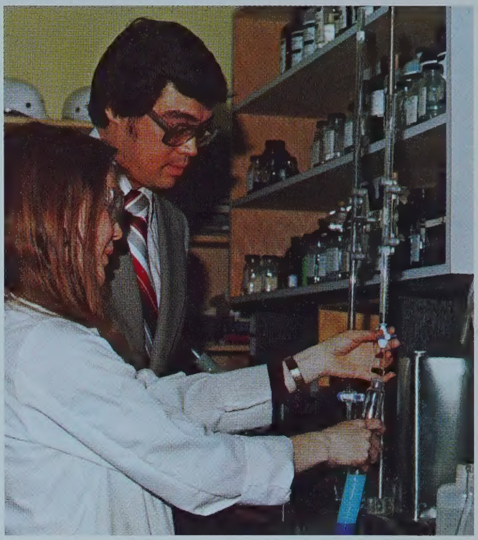
New Products and Quality Control

A new product development laboratory has been established under the direction of James Wega, newly appointed Vice-President, Corporate Quality Control and Development. This facility has responsibility for development of new propellant systems, improved quality and cost of existing products, and for entirely new products including those for other Divisions.

During the year this facility established many significant new products or improved formulations for existing products.

Inasmuch as this laboratory group holds the responsibility for development of new propellant systems, it would be appropriate to discuss the fluorocarbon controversy here.

The hypothetical question whether the fluorocarbons used in the refrigeration and air conditioning industries and in some aerosols could be detrimental to the world's ozone layer was no closer to being answered in 1975 than before. What did become apparent during the year, however, was that the so-called fluorocarbon controversy promises to be much less unsettling to the aerosol industry than previously thought by some observers.



Jim Wega, Vice-President, Corporate Quality Control and Development, checks laboratory procedure with Beverly DeRusha, Lab. Technican.

In fact, from your Company's point of view, 1975 saw the fluorocarbon question change emphasis quite significantly. It is now much more a challenging opportunity.

Continuing work on propellant systems within our new product development laboratory has already identified a number of important advances. Some of these relate to substitution of other propellants. In other cases, they involve the uses of different, more readily degradable fluorocarbons.

In a number of instances, the new propellant systems promise both cost and quality benefits when fully developed and approved.

In quality control, expansion continued throughout the year. Highlights were:

- Expansion of quality control physical facilities by 25%;
- Establishment of a separate customers' laboratory facility;
- Addition of sophisticated instrumentation, including additional gas chromatography, infra red spectrophotometer, and automatic titrimeter.

Andries Mulder, Vice-President, Operations.

Huge stainless steel compounding facilities are computer-controlled for precision blending of aerosol product ingredients.

High speed aerosol filling line.

During the year the Company strengthened its capabilities in the field of microbiology to achieve improved testing for stringent controls at all Divisions for raw materials, processing equipment, in-process production, premises, and post manufacture product approval.

Chempac

Because of the immensity of the potential market for Chempac's basic skills, this Division is growing rapidly and now accounts for an increasing percentage of your Company's total sales volume.

In 1975 Chempac realized the benefits of its earlier expansions and consolidation programs. Each of its three self-contained, specialized plants functioned well throughout the year and the resulting manufacturing efficiencies are reflected in earnings.

J. Kenneth Irvine, President, Non-Aerosol Division.

The movement of all liquid filling and hair care products, other than aerosols, to Chempac's Bethridge Road liquid filling plant has had immediate beneficial results in terms both of manufacturing efficiency and customer service—for all products made in that plant. The consolidation and expansion of tankage, mixing and filling operations at one location has provided strong benefits in terms of flexibility.

Liquids

This part of your Company formulates, manufactures, and packages such products as men's and women's toiletries, cosmetics including creams, lotions, roll-ons, and stick deodorants, shampoos, cream rinses, hairsprays, mouthwashes, household products such as cleaners, disinfectants, drain openers, toilet cleaners and air fresheners, pre-moistened towelletes and a broad range of mechanical spray pump products.

The substantial increase in tankage, compounding facilities, and storage, mentioned earlier proved to be beneficial immediately, firstly because of sales growth and secondly because the year saw a distinct market trend toward larger size packages. In addition, the plant's capacity was augmented during the year by a substantial expansion of quality control facilities. The relocated hair care laboratory has also been expanded.

Technical improvements achieved during the year include significant upgrading of several of the plant's seven rotary filling lines, and the addition of new automatic cartoning equipment for lines employed on long run products.

During the year engineering planning was completed for the replacement of some filling lines with substantially faster and more flexible equipment which will increase total filling capacity substantially.

High volume, fast filling is only part of Chempac's liquid plant resource. In addition, a number of smaller lines employ specially designed equipment for tube filling, creams, lotions, sticks, roll-ons, pre-moistened towellettes, etc. A key element in the principle of customer service is this section's readiness and willingness to ensure that our customers have all the product they require—even if some part of their need is for short run, or unusual form materials.

Production planning reviewed by Gary Ullman, Executive Vice-President, Chempac Ltd., right, and Peter Green, Manager, Carlingview Division.

Liquid product filling at Chempac.

Powders:

Your Company's powder products include detergents, soaps, automatic dishwashing compounds, household cleansers, drain openers, granular toilet cleaners, agricultural chemicals and also includes cosmetic powders, manufactured in a specially prepared isolation area.

A highlight of the year was the construction of Canada's first bulk storage silo for caustic soda beads. It is the eighth such silo to be built in North America and each of the other seven was analysed prior to construction to ensure that its design incorporated the best of each.

The new 200,000 pound silo provides these benefits:

- safer handling;
- faster blending;
- reduced handling cost.

Other developments in the year included the systematic re-engineering and rebuilding of manufacturing equipment. As a result, filling capacity has been increased by 25-30%.

Flexible Pouch Packaging

The individual-portion pouch package is one of the marketing industry's most successful innovative developments in recent years.

At your Company's Carlingview pouch plant there are 14 high speed filling machines supported by sophisticated blending and cartoning systems—all of them in individually self-contained, dust controlled units.

The products include proprietary medicines, shampoos, breakfast drink crystals, tea, coffee, hot chocolate and a number of others such as snack foods including popcorn, pet foods, condiments such as ketchups, mustard, vinegar and relish and grocery specialties such as seasoned rices, cake mixes, cocktail mixes, and dietary supplements.

As a result of a systematic line rebuilding program, productivity in the plant has been increased by some 20 percent. Late in the year, installation of new automatic after-packing systems was begun to improve offline handling efficiency.

An important technical advance achieved during the year was the building-in of changeover flexibility within each production line. Changeovers for both product types and package sizes can now be accomplished generally in an hour or less.

An interesting new trend is appearing in the market for the supply of some typical pouch package products in jars and cans. Because of the excellence of raw material control, blending, and filling facilities, the pouch division is strategically positioned to diversify toward manufacturing and filling of jars and cans and some contracts in this area have already been accepted.

Powder product filling at Chempac.

Senior Managers Gunter Berk, Vice-President, Operations, Chempac Ltd., left, Don Bulloch, Controller, Chempac Ltd., center, and Mike Mitchell, Manager, Jutland Division, right.

Flexible pouch packaging at Chempac.

Armstrong-Lang

The Armstrong-Lang Division of your Company is a successful specialist in the field of manufacturing and packaging those products which require sophisticated quality standards. These include prescription and proprietary drugs, personal care preparations and food products.

During 1975 construction was begun toward a major upgrading and expansion of compounding and packaging facilities. Among the improvements are a completely new pharmaceutical manufacturing line and the addition of new isolation areas.

The Division's capacity to meet stringent government regulations for the production of pharmaceuticals, in both aerosol and other forms, is based on extraordinary attention to high calibre quality control facilities and technically qualified personnel. As a result, this favorably positions Armstrong-Lang to produce a wide variety of other quality sensitive products, such as perfumes and cosmetics, food, drug and health preparations.

A quality control check at Armstrong-Lang.

End of the filling line—ready for cartoning—at Armstrong-Lang.

George L. Kitchen, General Manager, Armstrong-Lang Laboratories Ltd.

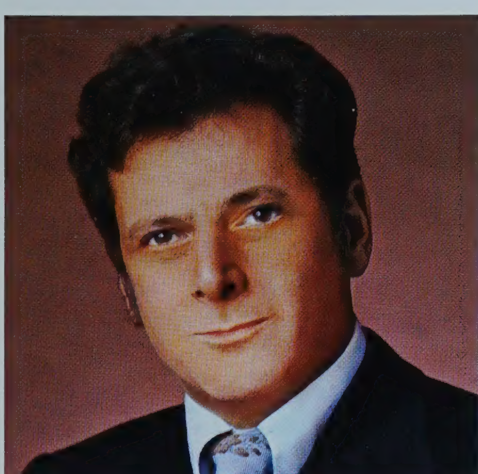
Craft Graphics

The acquisition of Craft Graphics has provided your Company with a quality oriented printing resource.

Product quality is a vitally important factor in the field of printing for the packaging industry. It is important in two ways. Labels and boxes not only must faithfully reflect the designer's specifications but they must perform reliably within high speed packaging systems.

Craft has demonstrated an effective capacity to achieve both objectives routinely.

Craft's location, in downtown Toronto, positions it strategically to serve its other printing customers quickly and economically.



Ward Walters, General Manager, Craft Graphics Services Ltd.

A modern, high speed press at Craft Graphics.

K-G Packaging

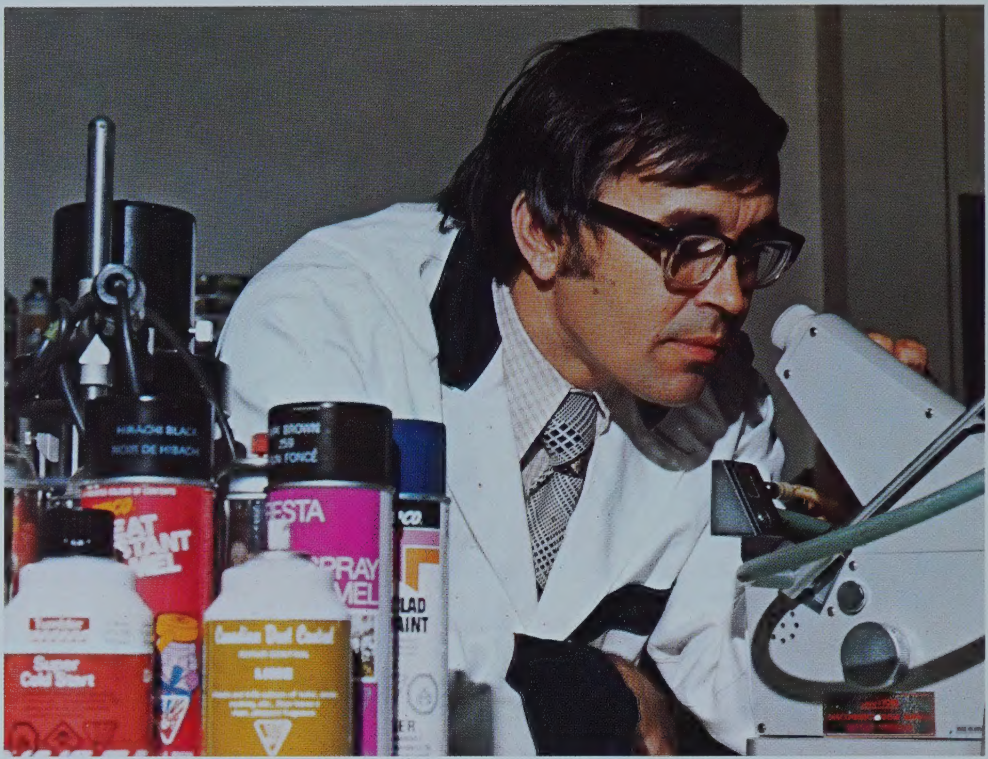
1975 was the best year that K-G has had. In its first full year of operations within the modern, totally self-contained plant acquired through Conn Chem's purchase of Peterson/Puritan, both unit and dollar volumes increased substantially.

K-G is Canada's largest producer of aerosol paints. But, in addition, it is also a manufacturer of aerosol products for the automotive, boating, construction and recreational vehicle markets. These include undercoating, engine cleansers, lubricants, ignition sealants, lock de-icers, starting fluids, refrigerants for air conditioners, vinyl cleaners, polishes and waxes.

Because K-G is experienced in the handling of volatile substances, this division also produces such products as lighter fluids and solvents.

Late in the year, K-G was completing installation of a new in-line liquid filling system, the main benefit of which is ready flexibility for the filling of containers up to gallon capacity for waxes, paint removers, paint thinners, and solvents.

An important feature of K-G's capacity for efficient operations is its tank farm complex for the bulk storage of raw materials.



Quality control is serious business at K-G. A. Suk, above, is Technical Director.

George Noguchi, Vice-President and General Manager, K-G Packaging Ltd.

Kleen-Stik

The newest member of the Conn Chem group of Companies is Kleen-Stik Products Ltd., one of Canada's largest and most progressive manufacturers of pressure sensitive materials, located at Toronto's Airport Industrial Park.

Kleen-Stik represents a significant diversification—but within a world we already know well. Pressure sensitive materials have become an important packaging industry product.

It was with some pride on the part of your Directors and, we believe, considerable satisfaction on the part of Kleen-Stik's employees, that this company has become Canadian controlled as a result of the acquisition by Conn Chem from its former U.S. owners. Certainly Kleen-Stik opens new avenues to your Company inasmuch as it maintains a thriving export business of Canadian-made products.

Kleen-Stik's products are sold to the country's graphic arts industries for processing into final customer products.

They are used for a host of functions, ranging from "Hello, my name is..." visitor identification, regular packaging labels, special add-on promotions, indoor/outdoor sales promotion materials, to a broad category of specialized business forms, computer printout tapes, etc. Some samples, designed to give you a chuckle, are enclosed with this report.

Pressure sensitive paper is slit into rolls to meet customer specifications.

Some important volume products are retail pricing stickers, food industry markers, including transparent materials, and fire retardant tapes used on insulation batts.

The product is a printable surface of adhesive backed material—paper, metal foil, plastic, etc.—covered by an easily removed silicone treated protective backing. Remove the protective backing and the adhesive does its job.

Pressure sensitive materials are suitable for high speed packaging lines because of the availability of automatic equipment such as Label-Aire® for which your Company has distribution rights in Canada.

Research, product development, and quality control receive careful attention at Kleen-Stik. Testing facilities are excellent and staff is both dedicated and innovative.

However assessed—market potential, quality consciousness, profitability—Kleen-Stik is a valued and welcome addition to the Conn Chem group of companies.

Eric deAbaitua, Vice-President and General Manager, Kleen-Stik Products, Limited shows some of the fluorescent feedstock about to become pressure sensitive material.

The Future

The future looks most exciting for Conn Chem.

Markets for all of your Company's major businesses have firmed during the last half of 1975 and there is every reason to expect that 1976 will produce sales and earnings growth as good or better than in previous years.

Internally, the constant program to boost efficiency continues unchanged. Excellent results have been obtained through the past year with the introduction of computerized accounting and inventory control within one major division and extension of the program to other divisions will follow.

Your Company continues to look aggressively for acquisitions and new business opportunities.

The financial strength of Conn Chem provides important flexibility for expansion programs, irrespective of whether they are continued internal expansions, vertical integrations within the already existing businesses, or whether they are the purchase of appropriate new businesses.

One thing is certain. Conn Chem is growth oriented—providing that growth can be achieved through the application of the same principles which have guided the Company thus far.

For the short term, the Company foresees relative price and market stability, continued engineering and administrative attention for constant improvement in manufacturing efficiency, and continued re-emphasis on developing our people and facilities for an ever higher level of quality and productivity within every one of the Divisions.

Gordon S. Lang,
President and Chairman of the Board.

May 12, 1976

Tom Tulk, Quality Laboratory Supervisor, in one of 10 of the Company's laboratories.

Claudia Stevens, Quality Control Analyst, Armstrong-Lang, right, and Maja Stevanovich, Quality Control Supervisor, left, are part of the Company's vital quality control and product development teams.

Consolidated Statement of Income and Retained Earnings

Year Ended December 31, 1975
(with comparative figures for 1974)

Conn Chem Limited and subsidiary companies

	1975	1974
Sales	**$ 60,181,755**	**$ 54,011,192**
Income from operations before undernoted items	$ 5,842,527	$ 4,832,405
Depreciation	1,064,573	875,648
Amortization of goodwill	65,948	
Interest on long-term liabilities	48,402	39,144
Remuneration of directors and senior officers	273,500	233,500
	1,452,423	1,148,292
Income before undernoted items	4,390,104	3,684,113
Income taxes		
Current	1,442,600	1,202,600
Deferred	455,700	439,500
	1,898,300	1,642,100
Income before interest of minority shareholders and extraordinary item	**2,491,804**	**2,042,013**
Interest of minority shareholders in income of subsidiary company (note 6)		25,424
Income before extraordinary item	**2,491,804**	**2,016,589**
Income tax reduction of subsidiary companies arising from carry-forward of prior years' losses	278,000	275,000
Net Income	**2,769,804**	**2,291,589**
Retained earnings at beginning of year	4,767,631	2,724,290
	7,537,435	5,015,879
Excess of cost over book value at dates of acquiring shares of subsidiaries, written off		248,248
Retained earnings at end of year (note 10)	**$ 7,537,435**	**$ 4,767,631**
Earnings per share (note 11)		
Income before extraordinary item	$ .93	$ .75
Extraordinary item	.10	.10
Net income	$ 1.03	$ .85

Conn Chem Limited and subsidiary companies

Consolidated Balance Sheet

December 31, 1975
(with comparative figures at December 31, 1974)

(incorporated under the laws of Ontario)

Assets

	1975	1974
Current Assets		
Term deposit (note 13)	$ 2,162,085	
Accounts receivable		
Trade	9,489,442	$ 7,738,355
Other (note 2)	365,796	495,587
Inventories (note 3)	7,696,617	7,671,601
Prepaid expenses	72,503	67,489
	19,786,443	**15,973,032**
Fixed Assets (note 4)		
Land, buildings and equipment	13,802,743	11,327,938
Less accumulated depreciation	7,546,605	5,941,766
	6,256,138	**5,386,172**
Other Assets		
Loans receivable (note 5)	325,700	
Goodwill (notes 1(d) and 6)	2,298,934	
	2,624,634	
	$ 28,667,215	**$ 21,359,204**

Approved by the Board

Director H. Lang

Director Elee O Ba

Liabilities

	1975	1974
Current Liabilities		
Bankers' acceptance		$ 2,000,000
Bank loans	$ 3,520,000	
Bank overdraft arising from outstanding cheques	2,866,511	1,863,215
Demand loans	175,000	920,000
Accounts payable and accrued liabilities	6,792,307	4,452,028
Income and other taxes payable	664,648	504,620
Principal due within one year on long-term liabilities	296,010	224,923
	14,314,476	**9,964,786**
Long-Term Liabilities (note 7)	**443,212**	**511,877**
Deferred Income Taxes	**952,250**	**620,100**
Interest of Minority Shareholders in Subsidiary Company		**74,968**
Shareholders' Equity		
Capital Stock		
Authorized (note 9)		
Issued		
2,696,452 Class A special shares (1974 2,696,452 Common shares)	5,419,842	5,419,842
Retained Earnings (note 10)	7,537,435	4,767,631
	12,957,277	**10,187,473**
	$ 28,667,215	**$ 21,359,204**

Long-term leases (note 12)

Auditors' Report

To the Shareholders of Conn Chem Limited

We have examined the consolidated balance sheet of Conn Chem Limited and subsidiary companies as at December 31, 1975 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell & Co.
Chartered Accountants

Thorne Riddell & Co.

Toronto, Canada
March 12th, 1976

Conn Chem Limited and subsidiary companies

Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1975
(with comparative figures for 1974)

	1975	1974
Financial Resources were provided by:		
Income before interest of minority shareholders and extraordinary item	$ 2,491,804	$ 2,042,013
Items not involving current funds		
Depreciation	1,064,573	875,648
Amortization of goodwill	65,948	
Deferred income taxes	455,700	439,500
Contribution from operations	4,078,025	3,357,161
Disposal of fixed assets	62,553	48,256
Other	39,300	
	4,179,878	**3,405,417**
Financial Resources were used for:		
Additions to fixed assets	987,996	1,951,118
Acquisition of subsidiary companies		
Purchase of shares for cash	2,140,451	114,847
Assumption of working capital deficiency	710,294	388,595
Reduction in non-current portion of long-term liabilities	318,416	224,923
Additional investment in shares of subsidiary company	194,000	83,914
Loans receivable	365,000	
	4,716,157	**2,763,397**
Increase (decrease) in financial resources	**(536,279)**	**642,020**
Financial Resources at beginning of year	6,008,246	5,366,226
Financial Resources at end of year	**$ 5,471,967**	**$ 6,008,246**
Changes in Financial Resources		
Increase (decrease) in current assets		
Term deposit	$ 2,162,085	
Accounts receivable, trade	1,751,087	$ 763,675
Accounts receivable, other	(129,791)	81,956
Inventories	25,016	1,500,263
Prepaid expenses	5,014	(62,365)
	3,813,411	**2,283,529**
Increase (decrease) in current liabilities		
Bankers' acceptance	(2,000,000)	900,000
Bank loans	3,520,000	
Bank overdraft arising from outstanding cheques	1,003,296	(178,445)
Demand loans	(745,000)	920,000
Accounts payable and accrued liabilities	2,340,279	(264,453)
Income and other taxes payable	160,028	261,619
Principal due within one year on long-term liabilities	71,087	2,788
	4,349,690	**1,641,509**
Increase (decrease) in financial resources	**$ (536,279)**	**$ 642,020**

Notes to Consolidated Financial Statements

Year Ended December 31, 1975

1. Summary of Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements include the accounts of all subsidiary companies.

(b) Inventories

Raw materials are valued at lower of cost and replacement cost. Finished goods are valued at lower of cost and net realizable value.

(c) Fixed Assets

Land, buildings and equipment are carried at cost. Depreciation is provided generally at the following rates and on the basis indicated:

	Rate	Method
Buildings	5%	Diminishing balance
Leasehold improvements	Term of lease	Straight line
Machinery and equipment	20%	Diminishing balance
Automotive equipment	30%	Diminishing balance

(d) Goodwill

Goodwill, being the excess of the cost of shares of subsidiaries over the book value of the underlying net tangible assets and which relates to the acquisition of subsidiaries after April 1, 1974 is valued at cost less amortization. To comply with generally accepted accounting principles, goodwill arising on such acquisitions is amortized on a straight line basis over 40 years. Goodwill arising before that date has been written off to retained earnings.

2. Accounts Receivable, Other

Included in this account are amounts due from directors and officers aggregating $100,267 ($74,326 in 1974).

3. Inventories

	1975	1974
Raw materials	$ 5,454,986	$ 6,262,943
Finished goods	2,241,631	1,408,658
	$ 7,696,617	$ 7,671,601

4. Fixed Assets

	1975 Cost	1975 Accumulated Depreciation	1975 Net	1974 Net
Land	$ 158,249		$ 158,249	$ 158,249
Buildings	2,710,513	$ 972,400	1,738,113	1,791,838
Leasehold improvements	932,149	402,438	529,711	481,366
Machinery and equipment	9,605,779	5,933,031	3,672,748	2,896,478
Automotive equipment	396,053	238,736	157,317	58,241
	$ 13,802,743	$ 7,546,605	$ 6,256,138	$ 5,386,172

5. Loans Receivable

Loans Receivable represent amounts advanced to directors and officers without interest under an executive compensation plan. These loans are secured by demand promissory notes and collateral second mortgages on properties owned by such directors and officers. These loans will be repaid over approximately a 10 year period.

Balance at December 31st, 1975	$ 351,700
Less amounts included in accounts receivable, other	26,000
	$ 325,700

6. Acquisition of subsidiaries

In January 1975 the company acquired, for cash, the remaining outstanding common shares of K-G Packaging Limited. Effective January 1975, March 1975 and October 1975 the company acquired all the outstanding shares of Craft Graphic Services Limited, Prolux Packaging Limited and Kleen-Stik Products, Limited respectively. The shares of Craft Graphic Services Limited were acquired under option from certain officers of the company.

The earnings of these subsidiaries have been included in consolidated income from dates of acquisition. The purchase accounting method was used and the acquisition equation with respect to each transaction is:

	Craft Graphic Services Limited	Prolux Packaging Limited	Kleen-Stik Products, Limited	Total
Total assets acquired at fair value (equivalent to book value)	$ 445,024	$ 1,774,545	$ 1,941,216	$ 4,160,785
Total liabilities assumed	1,277,945	1,670,915	1,317,324	4,266,184
	(832,921)	103,630	623,892	(105,399)
Premium ascribed to goodwill	836,510	813,101	596,239	2,245,850
Net Assets acquired, for cash	$ 3,589	$ 916,731	$ 1,220,131	$ 2,140,451

The premium ascribed to goodwill on the K-G Packaging Limited acquisition was $119,032. Craft Graphic Services Limited has loss carry forwards of approximately $773,000 available to reduce future income for tax purposes (see note 8).

7. Long-Term Liabilities

	1975	1974
6% Demand note, payable $150,000 April 30th, 1976	$ 150,000	$ 300,000
Loans payable due $31,312 annually December 31, 1976 to 1980 without interest	156,561	187,879
7% Mortgage due July 15th, 1979 payable in monthly blended instalments of $3,573	135,774	168,056
Chattel Mortgage, due December 1979 payable $1,980 annually, interest waived	7,920	9,900
7¼% Mortgage, due March 15, 1981 payable in monthly blended instalments of $1,176	61,622	70,965
Note Payable, payable $7,500 quarterly to January 1981 with interest at prime bank rates in effect at the first of each quarter	157,500	
Lien notes, payable in monthly instalments of $3,175 to October 1977	69,845	
	739,222	736,800
Less principal included in current liabilities	296,010	224,923
	$ 443,212	$ 511,877

Principal payable on long term liabilities amounts to:

1976	$296,010
1977	142,864
1978	114,551
1979	100,160
1980	74,653

8. Income Taxes

As at December 31, 1975, two subsidiaries have the following amounts available to be claimed against taxable income in future years, the tax effect of which has not been reflected in the accounts:

Tax loss carry forward expiring in:	
1976	$ 273,000
1977	104,000
1978	127,000
1979	473,000
1980	198,000
	1,175,000
Excess of undepreciated capital cost over net book value of depreciable fixed assets	160,000
	$ 1,335,000

9. Capital Stock

(a) Pursuant to articles of amendment dated July 16th, 1975, the Company's authorized 4,000,000 Common shares were reclassified into 4,000,000 Class "A" participating special shares without par value and the 2,696,452 outstanding Common shares were reclassified accordingly. In addition, the authorized capital of the Company was increased by the creation of 40,000 Class "B" participating special shares without par value and 1000 Common shares without par value. The Class "A" and Class "B" shares are convertible into one another on a share for share basis and rank equally in other respects except for dividends. If any shares are converted, the authorized and issued A & B shares are adjusted accordingly. The maximum number of A & B shares which may be outstanding at any one time is restricted to a total of 4,040,000. Dividends on the "A" shares are taxable dividends for purposes of the Income Tax Act (Canada). Dividends on the "B" shares may be paid out of capital surplus (see note 10) and will be tax-free to shareholders, subject to a corresponding reduction in the shareholders' cost base of their shares. Because dividends paid on the Class B shares will not necessitate the payment by the company of a special 15% tax on the surplus from which the dividend is paid, the dividend rate will be identical to that paid to the holders of the Class A shares. Also see note 13 for details of subsequent event.

(b) At December 31, 1975, options granted to certain employees were outstanding on 106,000 Class A special shares at $3.05 per-share and are exercisable to 1979. An additional 14,000 Class A special shares are reserved for similar options. Subsequent to December 31, 1975, options were exercised on 28,000 Class "A" special shares for a cash consideration of $85,400.

10. Retained Earnings

The company has obtained a favourable tax confirmation that it has substantial 1971 capital surplus on hand and that 1971 undistributed income on hand is nil. Also see note 13 for details of subsequent event.

11. Earnings Per Share

Fully diluted earnings per-share based on the number of shares outstanding at the end of the year and after giving effect to share options outstanding under the employee stock option plan are:

	1975	1974
Income before extraordinary item	$ .89	$ .72
Extraordinary item	.10	.10
Net Income	$ .99	$ .82

12. Long Term Leases

Property leases entered into by the subsidiaries of Conn Chem Limited extend into the year 1994, the minimum rental for which (exclusive of taxes, insurance and other occupancy charges) is as follows:

1976-1980	$ 2,030,954
1981-1985	1,164,901
1986-1990	724,665
1991-1994	375,700

13. Subsequent Events

On February 11th, 1976 the company issued a request for tenders on the outstanding Class "A" and Class "B" shares at a price not to exceed $4.15 per share, such offer expired February 27th, 1976. The actual shares tendered were as follows:

Class	Number of shares	Purchase Price
A	Nil	Nil
B	725,000	$ 3,008,750

On the purchase for cancellation of the above shares $1,464,992 was applied to reduce the paid up capital stock and $1,543,758 was deemed to have been paid as a dividend on those shares by virtue of the provisions of the Income Tax Act (Canada) and was applied to reduce retained earnings. The proceeds from the term deposit were used for the purchase for cancellation of the above shares.

Pro Forma Earnings per share after giving effect to:

1) the purchase and cancellation of these shares as if transacted at January 1, 1974
2) share options granted under the employee stock option plan, and
3) imputed interest on the purchase price of such shares.

	1975	1974
Income before extraordinary item	$ 1.13	$ .88
Extraordinary item	.13	.13
Net Income	$ 1.26	1.01

14. Anti-Inflation Act

The company is subject to the Anti-Inflation Act which provides as from October 14th, 1975 for the restraint of profit margins, prices, dividends and compensation in Canada. In the opinion of management, the provisions of this Act have no significant effect on the company's earnings for the year ended December 31, 1975.

Some of the products manufactured by your Company. ▷


all purpose engine degreaser
Lysol
nettoyeur
SUDDEN BEAUTY
Mazola
Woolite SPRAY & VACUUM
Pine Sol
Sani-Flush
TOILET BOWL CLEANER
CLOROX 2
Wizard
INSECT BLASTER
TROUBLE SHOOTER CLEANER
Windex
Baby Wash Cloths
BURLEY SHAVE CREAM
NOXZEMA ANTI-PERSPIRANT
KIK
Nature Scents
Lysol DEODORIZING CLEANER II
Kem AEROSOL
kleen-flo
GLASS CLEANER NETTOYEUR DE VERRE
Liquid-plumr
LADY PATRICIA
NOUVELLE FORMULE!
s'emploie à la place de l'eau de Javel
Borateem PLUS
REMPLACE L'EAU DE JAVEL
automatic dishwasher detergent
S.O.S
Twinkle
MON CONCIERGE
JANITOR IN A DRUM
PAM
Mr. Muscle
MOP & GLO
AMEX
Glass Plus
DESITIN
Glide
Silicone Spray
Aérosol de Silicium
Proto Royale
PROFESSIONAL HAIR SPRAY
bronztan
SUNTAN LOTION
turtle wax
herbal forest
SUDDEN BEAUTY
K2r
NOXZEMA
INSTANT
ultra ban
PINE BLOSSOM
Golden Touch
Raid
YARDLEY
HUILE DE BAIN CRISTALLISÉE
Suave
Kem AEROSOL
HI-GLOSS ENAMEL EMAIL HI-GLOSS
UPHOLSTERY CLEANER
Penguin
Carnation
CHOCOLAT CHAUD
DAIQUIRI COCKTAIL MIX
Royal
CHEESE CAKE GÂTEAU AU FROMAGE
fantastik
spray cleaner
Salada ICED TEA
CHUN KING
MARINADE POUR VIANDES
HAWAIIAN PUNCH
FLAVOUR CRYSTALS
LEMON-PINK
HOT FUDGE

Conn Chem Limited
Manufacturing plants

Manufacturing Plants

Conn Chem Limited
24 Curity Avenue
Toronto, Ontario

Armstrong-Lang Laboratories Limited
30 Curity Avenue
Toronto, Ontario

K-G Packaging Limited
8001 Keele Street
Concord, Ontario

Chempac Limited
Plant #1
13 Bethridge Road
Toronto, Ontario

Chempac Limited
Plant #2
387 Carlingview Drive
Toronto, Ontario

Chempac Limited
Plant #3
104 Jutland Road
Toronto, Ontario

Peterson/Puritan Canada Limited
30 Waterman Avenue
Toronto, Ontario

Dart Packaging Limited
387 Carlingview Drive
Toronto, Ontario

Kleen-Stik Products, Limited
6520 Viscount Road
Mississauga, Ontario

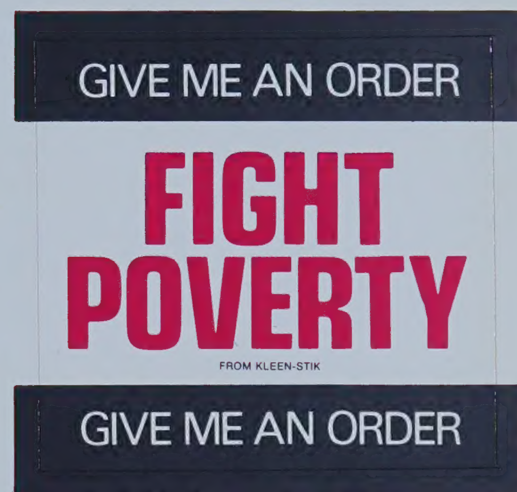
Craft Graphics Services Ltd.
235 Carlaw Avenue
Toronto, Ontario

Prolux Packaging Limited
26 Waterman Avenue
Toronto, Ontario

TPC

Total packaging concept

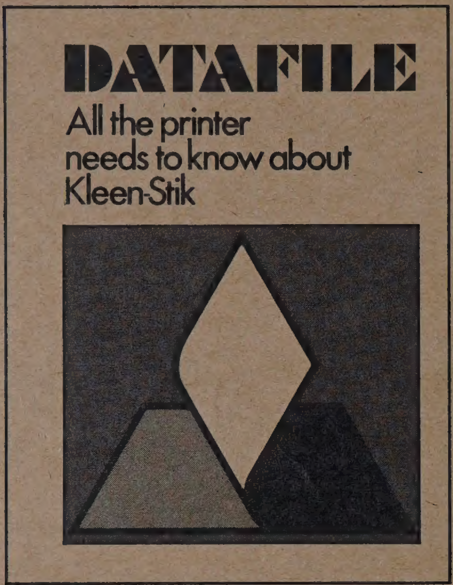
Peel these off for fun. Then let your imagination go to work.



The newest member of the Conn Chem Group of Companies is Kleen-Stik Products

Sheets like these are used by Kleen-Stik as part of their product promotion activity.

We hope you'll enjoy trying them.



A 12-page book primarily written for printers. Contains technical information and suggestions for working with Kleen-Stik pressure-sensitives.

STIK

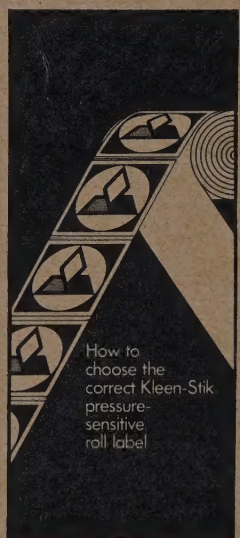
VOLUME 1, NUMBER 10, A NEWSLETTER FROM KLEEN-STIK PRODUCTS 4920 VISCOUNT RD., MISSISSAUGA, ONT.

Kleen-Stik takes the (frozen) cake

And goes right into the freezer in fact, keeping the eye-catching label firmly in place despite low temperatures and frost deposits. McCain Foods Limited, of Florenceville, N.B., recently introduced a new frozen dessert in an attractive see-through dome package. The four-colour labels, which include preparation instructions, were printed on Kleen-Stik 60 lb. white coated litho, a stock which accepts all conventional printing methods and inks. The permanent type adhesive adheres equally well to Saran, Polyethylene, Polypropylene and Cellophane as well as to cans, foil wrapped goods and waxed paper containers. Die cut in their circular shape, the labels include a small thumb tab on the release liner to aid in peeling and applying.

McCain found that the Kleen-Stik labels stay bright and colourful, and firmly in place, throughout refrigerated shipping and storage as well as in the frozen food display case in the store.
Kleen-Stik labels can completely and neatly cover outdated pricing, add seasonal or special promotion announcements, or even add on individual store's advertising message.

The Kleen-Stik newsletter, describing current developments, product information and recent Kleen-Stik application ideas. We'd also be happy to add your name to our circulation list.



"How to choose the correct Kleen-Stik pressure-sensitive roll label" is an 8-page booklet containing planning advice on the production of effective roll labels. Of interest to non-technical people.

8 pages of ideas that may stimulate your thinking on the use of pressure-sensitive materials.